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ABSTRACT

This unit on protecting a small business, the 18th in a series of 18 modules, is on the second level of the revised PACE (Program for Acquiring Competence in Entrepreneurship) comprehensive curriculum. Geared to advanced secondary and beginning postsecondary or adult students, the modules provide an opportunity to learn about and try out entrepreneurship ideas so that students can make a preliminary assessment of how these ideas relate to personal needs. The units on this level contain detailed explanations of small business principles, suggestions on how to find information and use techniques, and encouragement for creating a future business. Students completing this unit should be able to perform these competencies: (1) identify protective measures that can be used to minimize shoplifting and losses from theft, (2) identify procedures that can be used to reduce bad check losses, (3) identify proper procedures for guarding cash, (4) explain how to secure business premises against burglary and robbery, and (5) identify the different types of business insurance policies available. The unit is organized into five sections. Following a preliminary section on how to use the unit (with vocabulary and a review of the objectives for this topic on level 1), the unit's information is presented in question-and-answer format. Individual and group activities, an assessment to be completed with the teacher, and sources used to develop the unit follow. A list of the modules of Revised PACE, Level 2 completes the unit. (KC)

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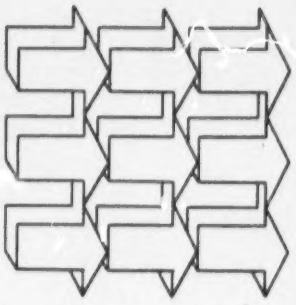
PACE
REVISED
Program for Acquiring Competence in Entrepreneurship



UNIT 18

☐ Level 1
☑ Level 2
☐ Level 3

Protecting the Business

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Developed by M. Catherine Ashmore and Sandra G. Pritz

You will be able to:

- **Identify various protective measures that can be used to minimize shoplifting.**
- **Identify procedures that can be used to reduce the amount of losses from theft.**
- **Identify procedures that can be used to reduce the amount of bad check losses.**
- **Identify proper procedures for guarding cash.**
- **Identify how to secure business premises against burglary and robbery.**
- **Identify the different types of business insurance policies available.**

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BEFORE YOU BEGIN. . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read the Unit Objectives on the front cover. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met at Level 1:

   - List the most common types of business crime
   - List other types of risk faced by entrepreneurs
   - Explain the need for protection against such risks
   - Discuss what entrepreneurs can do to protect themselves against risks and the losses they may cause

   If you feel unsure about any of these topics, ask your instructor for materials to review them.

4. Look for these business terms as you read this unit. If you need help with their meanings, turn to the Glossary in the *Resource Guide*.

   bad check losses
   internal theft
   vendor theft

PROTECTING THE BUSINESS

WHAT IS THIS UNIT ABOUT?

Once you have started your own business, it is important to protect it against the many problems and situations that might slow its growth. Some entrepreneurs lose large amounts of money each year simply because they don't know how to protect their business.

The focus of this unit is on identifying the risks faced by small businesses. The most common types of business crime are discussed. In addition, other types of risks faced by businesses are identified.

This unit will help you become aware of the risks faced by a small business and understand the need for protection against such risks. Measures that you can take to reduce business losses are also presented.

WHAT IS A RISK?

You face risks every day. You can't cross the street without some danger that you'll be hit by a car. Getting out of bed, driving a car, walking to a friend's home, eating in a restaurant, and opening a business all involve an element of risk. Risk is simply an uncertainty or possibility of loss. Like individuals, businesses need to protect themselves against such losses.

Losing property may be bothersome. However, if your business is destroyed by fire, that is serious. Both events are alike in one way: they cost money. Both are examples of a *risk*—an event that might cause you to lose money.

CAN RISKS BE AVOIDED?

Businesses face many kinds of risks and you should realize that there is no way to avoid all of them. Proper business management procedures can minimize the losses your business may suffer from some risks. But no amount of caution can eliminate risk entirely.

As an entrepreneur you must be able to identify the risks that your business faces and take appropriate preventive measures to minimize losses. In addition, you should be aware of which losses you can protect yourself from by purchasing the appropriate business insurance. Otherwise, a lifetime of work and dreams can be lost in a few minutes.

This unit will present procedures to minimize losses against common risks. But if your protection program is to be successful, you must identify all the potential sources of loss for your business. You must also develop a plan to protect your business against such losses.

CAN POTENTIAL SHOPLIFTERS BE DETECTED?

Of all business crimes, shoplifting has become one of the most commonplace. In most places, professional shoplifters account for only a small percentage of thefts. The majority of shopliftings are carried out by amateurs who steal on impulse, when there's a good chance they won't get caught.

Every customer is a potential shoplifter. Here are telltale signs of customers that you should watch for—

- Most amateur shoplifters are nervous. Their eyes scan the store to make sure no one is watching. They spend more time looking around than they spend looking at merchandise. Salespersons politely offering help are often met with startled, stammering responses.

- Shoplifters often hover in one area. They repeatedly circle certain counters but never buy anything. Some carry merchandise from one section of the store to another as though undecided. They are looking for watchful salespeople. If no one seems to be watching, they leave with the merchandise.

- Shoplifters often walk into the store carrying boxes, newspapers, brief cases, and shopping bags. People with such items in hand are not necessarily shoplifters. Nevertheless, they should be watched carefully. Also, customers wearing unseasonable clothing—a heavy coat in midsummer, a raincoat on a sunny day—may be "up to something."

WHAT TACTICS DO SHOPLIFTERS USUALLY USE?

Certain shoplifter tricks are used more frequently in specific types of businesses. In clothing stores shoplifters may simply walk out the door wearing a garment they've tried on. In grocery stores and drug stores, shoplifters may switch price tags on two items, and pay a low price for a high priced item. Purses, pockets, bags, umbrellas, baby strollers, and brief cases all offer shoplifters a place to put stolen goods and simply walk out of the store.

You should realize that professional shoplifters use more elaborate and sophisticated methods. One is a "hooker belt" on which to hang stolen items.

WHAT PROTECTIVE MEASURES CAN YOU TAKE?

By setting up good security practices in your store, you can begin to combat the shoplifting problem. Such practices must accomplish two things. First, they must heighten shoplifters' feelings of being watched. Attentive salespeople can reduce the number of shoplifting incidents in a store. Polite salespeople can unnerve a potential shoplifter. A simple "May I help you?" or "I'll be with you in a minute" warns shoplifters they are being watched. So, training your employees in security techniques is important.

Secondly, preventive measures should minimize shoplifters' access to merchandise, especially in the arrangement of the sales area. Businesses with neatly arranged displays make it hard to steal.

Cash registers should be placed to give every cashier a full and unobstructed view of the aisles. All small expensive items should be locked in glass display cases, that are placed out of reach behind the counter. Higher-priced merchandise should not be displayed near exits since shoplifters can easily walk out with it.

WHAT CAN YOUR EMPLOYEES DO TO PREVENT SHOPLIFTING?

The following list includes steps and policies to use to deter shoplifting at your business. They are all based on sound business management practices and will not cost money. Make sure that your employees are trained to follow these techniques—

- Use alert, assertive selling at all times; greet each customer promptly.
- Even if you are busy, let other customers know that you see them. Nod and say pleasantly, "I'll be with you in a moment."
- If you suspect that a customer is tempted to steal, watch that customer openly but courteously. Being watched discourages most shoplifters.
- Place expensive items behind the counter or in a closed display case.
- Keep aisles clear.
- When possible, keep items away from the edge of the counter.
- Check dressing rooms often for clothing left by customers.
- Check customers as they enter and leave the dressing room. One of the simplest methods of shoplifting is for a person to try on merchandise and then walk away from the department wearing it.
- Keep empty hangers off display racks at all times.
- Keep displays as complete as possible; this makes it easier to spot shoplifters, because you can see when something is missing.
- Check merchandise as you write up the order. Know the store prices and look for ticket switching. Look for concealment of additional merchandise inside the merchandise the customer is buying.
- Never turn your back on a customer if you can avoid it.
- Be especially alert during the busy opening, closing, and lunch hours.
- Be especially observant of people wearing loose, bulky coats or dresses.
- Never leave a section of the building unattended.

IS THERE EQUIPMENT THAT WILL MINIMIZE SHOPLIFTING?

Mechanical devices and equipment can be purchased to help a business minimize shoplifting. Some of these include:

- Placing mirrors in the corners of your business. Remember, however, that their effectiveness is limited. Shoplifters know that the view salespeople have of them is the same view they have of the salespeople. If the shoplifter can't clearly see what the salesperson is doing, then the reverse is also true.

- Installing one-way windows with an overall view of the business in the office or the rear of the store. This tactic can reduce shoplifting as long as someone is watching at all times. However, unlike large department stores, your business may not be able to afford hiring someone to do this full time. Therefore, shoplifters will be alert to this when entering a smaller store and the effectiveness of the window will be diminished.

- Using tamper-proof price tags—gummed labels that rip if peeled off or price tickets attached by plastic strips that must be cut with scissors—to help prevent price tag switching. Some items can be specially stapled so shoplifters cannot transfer a price tag to another item without a lot of work.

- Using electronic tags—another popular antishoplifting device. Salespeople must deactivate sensors in the tag at the point of purchase. If the tags are not deactivated, the customer or shoplifter walking out with an item will set off a loud alarm, thus alerting employees to a possible shoplifting attempt. Although clothing stores have found them especially useful, modifications have made them very effective for use on records, tapes, and other small items. However, such a system is expensive.

HOW SHOULD SHOPLIFTERS BE APPREHENDED?

You will need to develop store policies for what you will do if you suspect someone of shoplifting? A lawsuit may be brought against you for the false arrest of someone that you had only suspected of shoplifting.

You will need to become familiar with the prosecution of shoplifters in your state. Become aware of the steps needed to build an airtight case.

Fear of false arrest prevents many retailers from pursuing shoplifters. Others worry about the negative publicity that their store might receive. But more and more business people are prosecuting shoplifters. If your business establishes a tough stand, you will develop a reputation that may discourage most potential shoplifters.

HOW DO EMPLOYEES STEAL FROM THEIR COMPANY?

Internal security is a low priority for too many small businesses. Many store managers become too involved in the day-to-day operations of their business to take the time to monitor theft by their employees adequately. Dishonesty within a business may be a direct result of sloppy management as well as poor hiring practices.

Techniques used by employee thieves vary by the type of business. But typical tactics include the following:

- An employee pockets the money of a customer who has paid for an item with the exact change.

- An employee rings up a lower price on an item for a friend.

- An employee may keep a customer's sales receipt to use as "verification" of his or her own purchase.
- An employee intentionally damages goods in order to get them at a reduced price.
- An employee puts merchandise into his or her car from the loading dock before it is brought into the store.

HOW CAN EMPLOYEE THEFT BE CURBED?

You don't have to watch an employee's every move to control internal theft, but you do need to institute policies and procedures that will curb the opportunities for employees to steal.

One way you can detect employee dishonesty is through personal observation. Behavior patterns of employees may be one indication. For example, employees who arrive early or never take breaks may be suspect. Also, employees who appear to be living beyond their means should be watched.

You should also observe cash register clues. Pay close attention to too many "no sales," a large number of overrings and voids, or any pattern of cash register shortages.

The most important method of preventing internal theft is to hire honest employees. You need to determine more than just whether or not prospective employees can do the job. What has been their past employment performance and experience?

WHAT CAN BE DONE TO DISCOURAGE EMPLOYEE THEFT?

Effective personnel policies and procedures can help you create a positive working atmosphere and discourage employee theft. Some steps that you may want to consider are discussed below.

The first step in reducing employee theft is to try to select the most honest individuals for employees. *Screening applicants* is one of the most important security measures. A job applicant can't be judged by outward appearance alone. One hiring mistake could prove to be a great drain on profits for months or years to come. No matter how urgently you may need additional personnel, it does not pay to neglect your screening and hiring procedures. Checking past experience, former employers, and references are all good screening practices. Run a careful reference check on every new employee.

Another important step in reducing theft is setting a tone or atmosphere that will *encourage honesty* in your business. Because people respect high standards, you should not settle for less. They also tend to follow the example of the individual who sets such standards and requires that they be met. So you will set the pace. Avoid setting "double standards" of work behavior. If employees see you committing even a slightly dishonest act, they are encouraged to follow suit. Return overshipments or overpayments promptly.

You should also *establish realistic goals*. Expecting the employee to achieve the impossible is an invitaion to cheat. When you do, you give the employee little alternative; the employee must cheat or admit

failure and risk losing the job. Make certain each person is matched to the job. Employees should not be put in positions where they are tempted to lie or cheat about their performance because they can't do their work.

In a small business, employers and employees get to know each other quite well. Therefore, it is especially important to *be fair*. When people feel they are being treated unfairly, or that you are being unreasonable, poor performance may result. This may breed dishonesty. Set rules and apply them to everyone. Clear lines of authority and responsibility should be outlined. Every employee needs a ways to measure his or her progress and improve performance. Each employee's duties should be spelled out—preferably in writing. In addition to providing reasonable wages and salaries, try to relate to your employees' needs. You may not prevent all employee theft, but these practices will certainly help establish a good working environment.

You should continue to *train employees in investigation and security*. All employees should know company policies and procedures regarding security. Employees should be aware of ways to eliminate stock shortages and losses. They should also be familiar with typical shoplifting practices so that they can observe customer behavior more carefully.

WHAT POLICIES AND PROCEDURES CAN BE FOLLOWED TO REDUCE EMPLOYEE THEFT?

Researchers in the area of employee theft indicate that stealing is contagious. Guidelines have been developed to help reduce employee theft. Here are some basic policies and procedures to help curb this disease.

- Let your employees know that you expect them to be honest and will not tolerate thefts of any type.
- Inspect all packages of employees leaving the premises.
- Keep all doors, except customer exit doors, locked and make someone responsible for the key.
- Inspect trash at irregular intervals. Make sure that employees are not putting merchandise in the garbage and then retrieving it later.
- Watch the loading/unloading area to avoid collusion between the employees and the drivers who are bringing merchandise to the store.
- Spot check merchandise coming into the store to be sure that you are getting everything you are paying for.
- When possible, assign salespersons to one cash register only. Then check the register tape against the amount of cash in the register at the end of the employee's time at the machine.
- Have your books audited regularly by an accountant.

- Watch the cashiers to be sure that they are ringing up all the sales and doing so at the right price.
- Check out each employee before hiring by investigating the person's honesty and character.

WHAT IS VENDOR THEFT?

Another risk of loss that your business will face is vendor theft. Vendor theft occurs when delivery persons leave less than the number indicated on the delivery form that you or one of your employees sign. For example, a delivery of bread was supposed to be 200 loaves. You may be rushed and simply sign for them without counting. There were actually only 190 loaves. You realize too late that you have been cheated. Delivery persons would then take items that they didn't deliver and use them or sell them.

HOW CAN YOU REDUCE VENDOR THEFT?

Procedures that you can follow to reduce such theft include the following:

- Checking all deliveries carefully,
- Assuming nothing about the contents of the delivery,
- Checking to verify any shortages or overages immediately (Have the delivery person sign the bill noting any differences),
- If space permits, having a specific area and time for all deliveries. Most vendor theft occurs during peak business hours when the owner and employees may be rushed, and feel they can't take the time to make an accurate count of merchandise delivered.

Again, the key to reducing vendor theft is control. You must establish policies for checking on deliveries from vendors and making sure your employees follow these policies on *all* occasions.

SHOULD YOUR BUSINESS ACCEPT PERSONAL CHECKS?

Accepting a check for payment of goods and services has become a very popular business practice. If your business decides to accept checks, you will face the risk of loss from accepting "bad checks." These losses can be reduced if the proper policies, including a sound step-by-step procedure for accepting checks, are established. However, these policies and procedures must suit the needs of your store. Some businesses accept checks for the purchase price only; others require several forms of identification. Most businesses do not accept two-party checks.

To avoid the risk of losses from bad checks, you may decide not to accept any checks. However, you should realize that a large number of customers make purchases only by check or credit card. Because of this fact, you may lose a large number of sales with the policy of "no checks" or limited check cashing. By accepting checks, your business is relying on most of them being good.

ARE THERE DIFFERENT KINDS OF BAD CHECKS?

Solutions to the problem of bad check passing rely on establishing the right kind of check-cashing procedures. But, even the most cautious procedures may not overcome the problem of professional bad check passers who may be equipped with machines that duplicate and alter stolen checks and official identification.

Careless customers who cannot keep their checkbook records straight present you with another type of bad check problem. If your business accepts such a bad check, it is returned to you by the bank marked "NSF"—not sufficient funds. Whereas you may sustain permanent losses from forged or phony checks, you may be able to collect on NSF checks by simply calling the customer. Some businesses turn over such checks to a collection agency, despite the fees they charge. Such collection costs are, however, an additional drain on profits.

WHAT PREVENTIVE MEASURES CAN A BUSINESS TAKE TO MINIMIZE LOSSES FROM BAD CHECKS?

Businesses can use two methods to help reduce losses from bad checks. The first is to establish check-cashing policies. The second is to install equipment to help identify and stop people who often pass bad checks.

All check-cashing policies should rely on a number of basic practices. These include:

- Store personnel should *note the parts of the check* that may indicate it is bad. These may include the company or customer name being rubber-stamped; poor spacing or erasures; the date on the check being postdated; or the signature being illegible.

- The second step is to *ask for identification.* Is the customer really who he or she claims to be? Legitimate forms of signed identification include valid drivers' licenses and national credit cards. Many businesses ask for two pieces of identification: one should include a physical description of the owner as found on most drivers' licenses and the other is usually a major credit card.

After the check has been inspected and suitable identification presented, you may require that the customer's check be compared against a list of "bad checks" that your store has accepted in the past.

WHAT OTHER POLICIES CAN BE FOLLOWED TO REDUCE BAD CHECK LOSSES?

As a business owner you need to develop policies in three other areas. The first is whether or not you will permit customers to cash checks for more than the amount of purchase. If you permit this practice, you may want to limit the amount.

Another policy you must set is whether or not to cash payroll, social security, welfare, and similar types of checks. Stores who accept these checks hope to establish a solid group of repeat customers. But at the same time your business will be exposed to higher risks.

Finally, you must decide on a policy dealing with the prosecution of bad check-passers. What course of action will you take to recover losses from bad checks? This usually includes notifying the proper law enforcement agency, signing a complaint, and prosecuting bad-

check passers if and when they are caught. The problem may continue unless you make the commitment to prosecute. Such a commitment, however, will mean time away from your business when cases come to court.

If you have the funds, equipment is available to help deter chronic bad-check passers. These include—

- New computer cash registers that can compare a customer's check against a list of bad checks your business has accepted in the past. This system, however, will detect only persons who have given your store bad checks before.
- A check verification service is available in some states. If you subscribe to such a service, you call a central number and give the customer's driver's license number. Within seconds, the computer relays the customer's past history (if any) on cashing bad checks.
- Some stores have installed fingerprint equipment that places a customer's thumb print on the back of the check. However, some store owners have hesitated to use such devices, fearing they may turn away customers.
- More expensive photographic equipment takes a picture of the customer cashing the check.

To find out more about check protection equipment, look in the telephone directory yellow pages for companies selling these devices. You can also talk to neighboring business owners to find out what policies and procedures work best for them. Remember that you are under no obligation to accept a check. This is a courtesy and service you extend to your customers.

WHICH BUSINESSES ARE MORE VULNERABLE TO ROBBERIES?

Robberies account for only a small part of all business losses. However, robbers still present a growing danger for small store owners. Today more than ever, you may be confronted by a robber with a gun or lethal weapon capable of inflicting serious injury or even killing the hold up victim.

Some businesses are more open to robbery than others simply because of their location or the type of merchandise they sell. Stores in high-risk crime areas are particularly susceptible to robbery. Stores with valuable inventories, such as jewelry or liquor, and businesses that keep large amounts of cash on hand are lures to potential robbers. Stores that remain open late into the night also have greater chances of being robbed.

WHAT CAN REDUCE YOUR CHANCES OF BEING ROBBED?

You can never completely protect your store against robbery; but some business practices help reduce your chances of being robbed. Such practices include—

- making regular and frequent bank deposits. Many store owners do this during the day when the streets are busy. But it is still risky to carry large sums of money. Vary your hours

for bank deposits, and the routes you take to the bank if possible. Another procedure to follow is not to carry cash in obvious containers.

- relying on armored car service to make your bank deposits for you. Such services, however, are expensive.
- not keeping large amounts of cash in your building overnight. Instead, you may want to make arrangements with your bank for night deposits rather than to hold large amounts of cash. This procedure will allow you to make a deposit at the bank after it has closed. The bank will issue you a key to the "night depository" drop and special bags for your deposit that can only be opened by a key. This key is held by you and a duplicate is held by the bank.
- lighting your business inside and outside helps patrolling police spot robbers. This also causes thieves to think twice before approaching your store.
- keeping windows uncluttered to give outsiders a clear view of the store's interior. This practice further intimidates robbers.
- advertising security systems and minimum cash balances with decals or other signs that would warn would-be robbers of the risks they take.
- using a surveillance camera within a store—this can act as a powerful deterrent to robbers. Such a camera takes pictures of robbers that can be used by police to help find the thieves. However, you must realize that the purchase and installation of such equipment is expensive.
- installing alarms near cash registers to be activated in the event of a holdup. However, many times robbery victims may not be able to trigger the alarm without endangering their safety.
- establishing policies for your employees to follow in the event of a holdup. During a holdup, you should be concerned with your personal safety and the safety of your employees as well as remembering information about the robber that will help police. Such information includes standard physical characteristics like height and weight, but you should also look for unusual details such as scars or tatoos.

WHERE CAN YOU GET INFORMATION ON SECURING A BUSINESS AGAINST BURGLARIES?

Burglaries are one of the biggest external threats to an entrepreneur. To guard against such losses, you must evaluate how well your business premises will deter burglars. Very often, inexpensive deterrents can be used instead of purchasing expensive electronic equipment.

To help you assess your needs, you should contact reputable locksmiths, local police departments, alarm company representatives,

insurance agents, and neighboring merchants. Security consultants are also a good source of information.

Securing your business's premises begins by securing all obvious, and not so obvious, points of entry. Ask yourself "How could a burglar enter my business?" Then, take steps to correct the problem area. The following policies and deterrents should minimize burlary losses.

WHAT ABOUT LOCKS AND KEY CONTROL?

Physical protection against burglary begins by securing all points of entry. Secure locks should be installed on all doors and windows. Since a cheap lock can be easily opened with a knife or plastic card, experts recommend a sturdy deadbolt and a pin tumbler cylinder. The bolt should be as long as possible so it can't be released if someone attempts to pry the door open. A locksmith can inspect your premises and prescribe the safest type of lock.

A good key control plan is as important as a secure lock. Locks are only as good as the care you take of the keys. Keys issued to employees should be stamped "Do Not Duplicate." You will want to change locks if an employee leaves or quits without returning the keys.

HOW CAN WINDOWS BE SECURED?

Front windows offer burglars easy access to the building's interior. Retailers have a special problem. Since their front windows are designed to draw customers into the store, the merchandise is attractively displayed. Valuable goods shown in windows are especially attractive to burglars.

Retailers can reduce the likelihood of "smash-and-grab" operations by installing tempered or laminated glass windows that resist blows. Iron screens, grills, or bars placed outside windows or between the windows and the building that are securely fastened at night can also help keep out thieves. Some grills can be removed during the day. Many ironwork companies specialize in designing attractive grills that both dress up the building's decor and foil burglars.

Transoms, skylights, ventilator shafts, air vents, and utility access covers should also be protected with steel mesh screens or bars. Because they are often shielded from view, these entrances are especially inviting routes for burglars. Make sure they are properly secured. (Such openings should be permanently sealed if they have no purpose.) Before this is done, however, check with the fire department to determine whether safety will be hampered.

Security experts advise businesses to clear their grounds of overgrown shrubbery, especially near windows or entranceways, that offers burglars safe hiding places. All ladders, ropes, hoses, and tools that could help a burglar gain entry into the building from front, side, back, or roof should be locked up—not left outside the building.

HOW CAN LIGHTS PROMOTE SECURITY?

Bright lights that illuminate the building's exterior and interior at night can effectively discourage burglary attempts. Many burglars prefer working at night because the darkness conceals their activities. By keeping your store well lit, you will help patrolling police identify suspicious persons.

WHAT ABOUT GUARDS OR PATROL SERVICES?

Guards who either stay in the building for a certain amount of time or who check the building at regular times can be hired to help protect your business. Rates will vary according to the type of service. For small operations, such services can be very expensive. However, by pooling resources, a group of businesses can greatly lower the cost for each individual. You might want to organize the businesses in your area to hire such services.

A watchdog in the building presents the intruder with an immediate physical threat. For some types of business operations, specially trained guard dogs provide effective security. To do their job well, however, watchdogs need to be retrained periodically. It's probably best, therefore, to lease a dog instead of buying one.

WHAT ABOUT PROTECTING CASH?

Good business managers are especially careful of how much cash builds up during the day and how it is stored at night. By making frequent bank deposits, owners protect themselves against large cash losses. You may want to leave your empty cash register drawer open at night as a sign to potential burglars that there is nothing to steal.

Safes can protect cash, checks, and important papers and documents from fire as well as burglary. However, before buying a safe, you should understand the differences between fire-resistant and burglar-resistant safes. The first, made of flame-retardant materials, is relatively easy to break open. Burglar-resistant safes, on the other hand, are designed to guard against ripping, punching, chopping, or burning. However, a safe that cannot be opened by some burglar has yet to be invented.

Where should you locate a business safe? You might hide it in a back room or closet, hoping to trick the burglar into thinking that there is no safe. However, installing a safe in the back room only gives thieves greater privacy.

HOW DO YOU SELECT AN ALARM SYSTEM?

If you do not believe that locks, screens, and other physical deterrents provide enough protection, you may consider installing alarm systems. Experts warn entrepreneurs not to try to determine their own alarm requirements. For most people, the concept of electronic warning devices—and the alarm industry jargon—can be confusing. A bewildered entrepreneur, pursued by unethical sales representatives, can wind up investing large sums of money in elaborate alarm systems that provide too much protection. Others may be upset over the high costs and decide to stick with traditional protective devices instead of looking into other less expensive alarm systems. Either action is unfortunate.

With the right information, you can devise a protection plan that will take care of your needs. Security consultants and local law enforcement agencies can steer you toward the more reputable alarm companies in the area. You may then ask for bids from at least three alarm companies and select the one that fits your budget and seems most reliable. Your actual experience with a protection company will help you learn how dependable it is.

SHOULD A BUSINESS PURCHASE INSURANCE?

A major way of reducing losses from risks is to purchase adequate insurance protection for your business. Although insurance will be an added expense for your business, it is necessary. Without adequate insurance protection, you could lose everything you've worked hard to build. Remember that insurance will not *prevent* disasters, but it can protect you from loss if a disaster occurs.

The type, amount, cost of coverage, and other specific details of an insurance program should be discussed with your insurance agent.

HOW MUCH WILL INSURANCE COST?

You will have to select among various types of insurance coverages. The types and amount of insurance that you will choose for your business depend on such factors as the type of business, your willingness to assume risk, and where your business is located. You will have to be selective about the amount of insurance that your purchase; it is doubtful if you'll be able to insure yourself against *all* possible risks.

WHAT ARE THE TYPES OF BUSINESS INSURANCE?

Several common types of insurance protection that you may consider for your business are discussed below.

Fire insurance is one of the first and most common types of insurance that you should think about. If you are renting or leasing, be sure to find out just what is covered by the owner's fire insurance. Also, some fire insurance polices can be extended to cover other damages from hail, wind, smoke, civil disorder, explosion, or rain. Here too, you should assess your needs and determine the amount of risk you are willing to take.

Do not assume that purchase of fire insurance should take the place of active fire prevention measures. Good housekeeping and maintenance, use of smoke and heat detectors, and availability of fire extinguishers are just as important as insurance. Some people also establish a no-smoking policy.

Fidelity and surety bonding insurance provides coverage against financial loss caused by dishonesty (such as embezzlement), or the failure of one person to perform a legal obligation to another (such as not constructing a building as promised). This type of insurance should receive careful consideration if you have delegated authority over large amounts of money or company assets.

Casualty insurance protects a business from specific loss situations. For example, businesses can purchase casualty insurance that provides protection from losses caused by burglary, robbery, theft, and larceny. Some entrepreneurs also purchase a business interruption rider to provide some income if a business is closed down because of such damage.

Liability insurance protects your business against claims arising from personal injury or property loss. Suppose a small hand tool falls on the floor; a customer trips over it and breaks a wrist. Such insurance protection would cover you against any lawsuit that might result. Again, prevention is important. However, note that this type of insurance would be important even if you could win every case in court. Lawsuits can tie up your time and assets. They can even affect credit availability.

Product liability insurance protects a manufacturer against claims that the product is unsafe. This type of insurance is often expensive. Think carefully about what the worst result could be if your product were defective, and use that as a guide to your decision.

Key person insurance pays you when any partners or persons essential to managing the business become disabled or dies.

These are only the major coverages that many small businesses have. Every business is different, and insurance needs will vary. You should consult a reliable insurance agent to develop a complete insurance plan that will meet your business's specific needs.

Insurance rates also vary. You should shop around before deciding what to purchase. If you are a member of a trade association, special policy rates may be available to you.

Protecting your business is a complex issue and will require planning on your part. But, without taking the steps to protect your business adequately, you could lose all that you have worked hard to build.

ACTIVITIES

Do you feel knowledgeable about identifying business practices that will minimize losses faced by small businesses? Will you be able to put some of the skills into practice? The following activities will help you experience some of the real-life situations of entrepreneurs.

INDIVIDUAL ACTIVITY

Contact a local business in your area of interest and interview the owner.

1. Ask about the firm's policies and procedures to minimize losses due to shoplifting, bad checks, employee theft, vendor theft, robbery, and burglary.
2. Ask if the firm has installed any mechanical equipment, such as alarms, to minimize the loss from such risks.
3. Ask about the types of insurance protection the firm has.

Record your findings.

Investigate and prepare a one-page report on how some of the small businesses in your community handle the problem of shoplifting. Also, discuss any mechanical devices that might be used by these businesses.

GROUP ACTIVITY

In a small group of three to four members, compare the findings of the interviews that each of you conducted.

1. What are the similarities? What are the differences?
2. Do they vary by the type of business?
3. Do they vary by the size of the firm?
4. Were there types of insurance that all the firms had?

You may want to develop a chart to compare your findings.

CASE STUDY

Develop a total protection program for an independent jewelry store. Assume the store has 1,200 square feet of selling space and an additional 200 square feet of storage space in a back room. There are two full-time employees, and no alarm system or other protective devices. Assume the store is located in a large shopping mall in a city of approximately 185,000 people.

Develop policies and procedures that will minimize losses from crime. Discuss any mechanical equipment that will be needed. Also, describe the types of insurance policies that the store will need.

ASSESSMENT

Directions: Read the following questions to check your knowledge of the information in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Name and explain five low-cost activities that a business can use as precautions against shoplifting losses.
2. Identify the best tool that an entrepreneur can use to detect employee theft.
3. Define vendor theft.
4. Explain the effect that a "no check cashing" policy can have on a business.
5. Explain why it might be a good policy to keep signs and posters out of store windows.
6. Identify factors that an entrepreneur should consider before deciding upon the types of insurance he or she will purchase.

SOURCES USED TO DEVELOP THIS UNIT

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Small Business Administration. *Preventing Employee Pilferage.* Management Aid, no. 209. Washington, DC: U.S. Government Printing Office, 1970.

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For further information, consult the lists of additional sources in the *Resource Guide.*

Level 2

PACE

Unit 1. Understanding the Nature of Small Business

Unit 2. Determining Your Potential as an Entrepreneur

Unit 3. Developing the Business Plan

Unit 4. Obtaining Technical Assistance

Unit 5. Choosing the Type of Ownership

Unit 6. Planning the Marketing Strategy

Unit 7. Locating the Business

Unit 8. Financing the Business

Unit 9. Dealing with Legal Issues

Unit 10. Complying with Government Regulations

Unit 11. Managing the Business

Unit 12. Managing Human Resources

Unit 13. Promoting the Business

Unit 14. Managing Sales Efforts

Unit 15. Keeping the Business Records

Unit 16. Managing the Finances

Unit 17. Managing Customer Credit and Collections

Unit 18. Protecting the Business

Resource Guide

Instructors' Guide

Units on the above entrepreneurship topics are available at the following three levels:

- Level 1 helps you understand the creation and operation of a business
- Level 2 prepares you to plan for a business in your future
- Level 3 guides you in starting and managing your own business

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